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AN INTERNATIONAL TRADE FAIR IN HONG KONG

The project of the establishment of an international trade fair in Hong Kong has recently been the topic of many business and official conversations. The opportunity for Hong Kong, in the changed post-war Far East, to become the major financial and commercial centre has been convincing to most observers and professional economic investigators who were sent here to compile reports for their respective organisations in America and Europe. A trade exposition in Hong Kong would immeasurably benefit this Colony's prestige and business interests, and may eventually develop into one of the most important events of the commercial communities in Far Eastern countries.

The realisation of this great scheme requires a determined effort on the part of the local business interests and Government, but its success will depend on the enthusiastic cooperation of manufacturers and traders abroad. It can be taken for granted that European and American industries and their agents, and Far Eastern merchants and government organisations will welcome an international trade fair in Hong Kong.

Industrial products of the West will be displayed in, as is hoped, a permanent or a bi-annual exposition planned and designed exclusively for the benefit of the buyers in Western Pacific and Far Eastern countries. Combined with this exposition should be—although not right from the beginning on account of complications in the field of organisation—a display of various national industrial goods and handicrafts made in Far Eastern cities.

Government here is eager to assist as much as possible in this regard and has given sufficient encouragement. During a recent interview granted to a representative of this paper by the Hon. Colonial Secretary it was emphasised that Government would actively support the scheme of a permanent industrial exhibition or an international trade fair in Hong Kong.

Government would, presumably, participate if it comes to the erection of suitable buildings and the choice of an area measuring several tens of thousands of square feet.

The immediate task is to organise a Syndicate, composed of local business interests and Government officials, which would have to plan for the eventual establishment and operation of the fair.

There can be no doubt that prospective exhibitors and buyers will be keen to take part in the future exhibition in Hong Kong but the organisation of this great business will prove to be no easy job. Manufacturers in London, Paris, New York, Brussels, Zurich, Milan, Prague, etc. will have to be informed as well as merchants from Singapore to Manila.

The beginnings of the future Hong Kong Trade Fair will be relatively modest but it will certainly grow into a business of greatest potentiality; it requires little imagination to visualise the high degree of prosperity bound to follow the opening of such an international fair in this Colony.

The problem of selecting and acquiring the necessary area, in or near the business centre of Hong Kong, will be easily solved with the co-operation and participation of Government. The construction of halls and booths for housing the exhibitors' products may be expensive today but building materials' costs are decreasing in foreign markets and there should be no need, at least for the beginning, to erect very presumptuous structures. The main difficulty will be presented by the human factor; most business executives are overworked and have little if any time to spare on new tasks however welcome and necessary they may prove to be; officials in Government service, although very anxious to assist in the promotion of business here and business between Hong Kong and the world, are also working under pressure of time since most departments are seriously understaffed.

There are a few prominent local merchants at present on vacation or prolonged business visits in their homes in Europe or America, and some of them would possibly make the necessary contacts with manufacturers' and exporters' associations. Furthermore, Hong Kong Government officials, either on their way home or to be specially assigned for this proposition, could more systematically establish the basis for the participation of British manufacturers and exporters in the future Hong Kong international trade fair.

Most assuredly the British export industry will support the scheme and it stands to benefit, in form of large export orders, from the suggested local exhibition. British manufacturers desire to show the Far Eastern peoples the great range and variety, the high quality, and the excellent design of Britain's post-war industrial output, and to display the new products, new techniques and new processes perfected in recent years. Far Eastern countries will look to Britain as one of the main sources of their supply of manufactured goods. Despite production difficulties caused by world shortages of raw materials Britain has already far exceeded the pre-war export volume of manufactured goods. During the current year British industry is going to further increase its capacity, and to adapt its organisation to meet world demand for British products. The spectacular success achieved at the British Industries Fair (May 5-16, 1947), the first held after the end of war, should encourage prospective industrial exhibitors at the proposed Hongkong International Trade Fair.

The not inconsiderable local industry will, as a side line, greatly profit from the holding of a Fair in the Colony. Many of our local products will be displayed to the visiting buyers, and, provided that cost of living and production in 1948 should have dropped as is confidently hoped, Hongkong's manufacturers could expect record orders. The principal local industrial goods for export, apart from boat building in which the Colony is leading in the Far East, include: cotton piece goods and

THE SHAPE OF THE FUTURE PROSPERITY OF SOUTH EAST ASIA

THE ECONOMIC RELATIONS BETWEEN INDIA AND THE SOUTH EAST ASIAN COUNTRIES OF SIAM, INDOCHINA, INDO- NESIA, MALAYA AND THE PHILIPPINES

(By an Indian Correspondent)

India's trade with S. E. Asia has been both small in value and limited in character. In 1938-39 our total exports to Burma, Malaya, Siam, Indochina, Indonesia and Philippines amounted to R. 15 crores, while the value of our imports from the same countries came to a total of R. 30.5 crores. One crore equals 100 lakhs; 1 lakh is 100,000; one crore equals Rupees 10 million. These values were small fractions of our aggregate of the foreign trade-exports and imports respectively, and of the aggregate foreign trade of these countries too.

The varieties of articles we export to and imported from these countries were restricted in range. Among our exports, manufactured jute and cotton products and among our imports rice, spices and teak

made-up goods, hosiery, leather articles, rattan ware, lacquer and paint, rubber canvas shoes and rubber articles, preserves like ginger and jams, electric batteries, torch lights, embroideries, lace and lingerie, buttons, hats and sundries. New factories are bound to open here if the outlook for new markets improves.

It has been mooted in Government circles to accommodate a permanent exhibition of local industrial products in the future City Hall's ground floor so as to give every possible assistance to local manufacturers and prospective buyers from abroad. However, the proposed Fair should include, as a not unimportant sector of the whole, the exhibition of locally manufactured goods and native handicrafts.

A flood of visitors will come to Hongkong. Their accommodation may be found an embarrassing problem to-day but by the time of the opening of the Fair, conditions can be expected to have improved very much. Every fair draws swarms of tourists in addition to buyers, a fact which should further induce the merchant community of Hongkong and Government to tackle the proposition right now. Our exchange earnings to be derived from tourist traffic incidental to a trade fair should go long way towards financing luxury imports from any hard currency country in the world.

The development of parts of the Island as a health resort and international centre for tourists could be promoted pari passu. Hongkong is, to a certain extent, already a well-known place for recreation seekers for which so far we have to thank Nature more than our local enterprising business men.

wood played overwhelmingly important roles. And except cotton textiles, none of our important exports figured among the important imports of these countries.

Poor Trade

The basic explanation of the facts lies in the character of the economy of India and of the countries of S. E. Asia in relation to another and to that of other countries of the world. In the first place, India and the countries of S. E. Asia are poor, and though there contained in 1938 a total population of 126 millions, the mass of their peoples have low productivity and a low standard of life. Trade per head of the people is, in consequence, extreme meagre and foreign commerce is small despite their large numbers.

Geographic Similarity

India and the countries of S. E. Asia possess a basic geographic similarity. All of them fall within the monsoon zone with its common characteristics of high temperature, heavy and seasonal rainfall and humid atmosphere; they possess similar natural vegetation, and grow similar products wherever forests have been cleared and cultivation extended. Rice, for example, is the chief crop in all these countries except Malaya where rubber occupies a larger percentage of total crop area, the other important crops being maize, groundnut, sugarcane, tea, coffee, rubber, copra.

Obviously opportunity for trade between India and these countries in agricultural commodities must be limited to instances in which either national production is appreciably in excess or defect of national consumption or there are significant differences in the comparative costs of production. India, for example, imports rice from Burma in considerable quantity even though she is herself one of the largest rice-producers in the world.

Ratio of Cultivated to Cultivable Land

The proportion of cultivated to cultivable land varies greatly among these countries. While India is densely populated and most of its tillable land is in use, Thailand, Indochina, Burma, Indonesia and Philippines contain great reserves of potential agricultural land. The countries of S. E. Asia, except the older and thickly settled parts of Indonesia, have extensive areas under forest, whose total output of timber is, in some instances, much in excess of national need.

With agriculture itself the importance of plantation culture differs greatly from country to country. Broadly speaking plantation cultivation gravitates towards crops which require an expensive manufacturing process before they can be sold, but plantations normally produce, for the world market. For example, 99% of the sugar and 82% of the tea exported from Indonesia in 1938 were plantation grown, though export of rubber was derived in about equal proportions from plantations and cultivators' farms. However, India does not share in this trade significantly, she herself produces all the commodities within her borders and in the case of some, e.g., tea, she is an important exporter.

Mines & Industries

Though mainly agricultural in their economies, these countries have a number of important extractive industries whose products viz. lead, tin, petroleum, tungsten, bauxite, etc. figure among their exports.

Even in poor countries there are wealthy sections of the population which consume the products of foreign industries, while for certain types of simple manufactures, mainly textiles, even the low income of the masses may not be inadequate. In 1935 more than two-thirds of the total imports of S.E. Asian countries consisted of manufactured articles. However, India's share both in the export of non-agricultural raw materials and the import of finished manufactures was small. None of her imports of minerals from them, except petroleum from Burma, was significant, and though she enjoyed a monopoly of the import trade in jute manufactures and sold a good value of cotton tissues to these countries, her share in the aggregate of imports of manufactures was small indeed.

Foreign Competitors

The reasons for this state of things are obvious. In the first place, in respect of a large range of complex, industrial goods, e.g. machines, cars etc., India is herself an importer. Secondly, in respect of simple manufactures which she today produces in appreciable quantities and exports in some measure, she had to meet in S.E. Asia the powerful and increasing competition of Japan. S. E. Asia has been specifically the area to which Japanese export drive was first directed and it provided the market in which Japan with her aptitude for producing low-priced articles of common use scored remarkably over her competitors.

Indeed, the share of Japan in the import trade of S.E. Asian countries would have been higher still, if tariffs, quotas and other restrictions had not restrained it. India's exports to S. E. Asian countries have been finally affected by the preferential arrangements which subsist between some of them and the Western Powers.

While India enjoyed an advantage over her competitors in the Burmese market, and was on par with U.K. in Malaya, she was confronted by the preferential tariffs that regulated the trade between Indochina with France and other French colonies and between Philippines and the U.S.A. In 1938 Indochina derived about 60% of her imports from France and other French colonies, while 68% of Philippine imports came from U.S.A.

FUTURE TRADE

The above analysis of India's foreign trade with S. E. Asian countries as it was in recent past indicates the forces which will govern it in future.

Probably the factor of greatest importance to the immediate future is Japan as a competitor. In theory, India as an important manufacturer of textiles should be able to take advantage of the situation. But the extent to which she can do so depends greatly on two considerations.

First how long would it take Japanese economy to be rehabilitated and Japan's export capacity to be restored. Japanese standard of life was, prior to the war, geared to a high level of exports of manufactured goods, and it is agreed that sooner or later Japan must be allowed to reinstate her manufacturing industry, at least the section of it, which produces consumer goods.

Secondly, India's own manufacturing equipment is to-day either worn out or inadequate to her needs, and it may be years before she can replace it and secure additional units from abroad.

Thirdly, as a result of the persistent drive for multilateralism in international trade by U.S. the preferential arrangement that to-day canalise a good part of the foreign commerce of S. E. Asian countries may be abolished or toned down. But India may lose more from open door in Burma, Malaya, and elsewhere than she may gain from the removal of preferential arrangements in French Indochina and Philippines.

But finally, and overriding the influence of these factors will probably be the effect of the urge to industrialise on the part of the S. E. Asian countries themselves.

The basic economic problems that confront these countries are the same as those of India and the directions in which and the methods by which solutions would be sought would be the same. The countries of S.E. Asia will have to direct more and more of their resources to the production of those simple manufactures which occupy so important a place in the industrial economy of India to-day.

The increasing income and prosperity of these countries will no doubt benefit world trade, but the benefits are likely to be reaped by advanced industrial nations like U.K. and U.S.A., rather than by India.

We have now reached the stage where Western European-American technology is capable of remaking the life of Asia. But whether the new Asiatic society will emerge as our friend or enemy will depend upon much more than technology. Can the Western system of values be exported to the East without modification? Can China accept our institution of representative government as easily as she can buy our automobiles?

We should never forget that our modern technology can be used for ends far different than our own and that the export of ideas is more important than the export of gadgets. Asia cannot easily accept our ideas or values without extensive modification of them to suit particular Asiatic conditions. Our most pressing need is therefore to understand how the values of American life apply, for example, to China. No amount of study of our own culture can give us this answer. Unless we assimilate an understanding of Chinese culture, we cannot expect to help China assimilate ours.

Program on China

An attempt to approach this understanding is now being made in the academic field at Harvard. Nine departments of the Faculty of Arts and Sciences are now cooperating with the Faculty Committee on International and Regional Studies in a program on China. This project is considered to be simultaneously both an experiment and an unavoidable necessity. It illustrates how educational techniques developed for war have become essential for the maintenance of peace.

During the war many members of the Faculty, under the leadership of Professor Carl J. Friedrich, participated in the School for Overseas Administration, in which special programs focused the learning of many disciplines upon the enemy areas of Japan, Italy, and Germany, which we were obliged to conquer. The success of these programs led the Faculty to recommend that efforts be made to use in peace-time education the techniques of area

The Chinese seem to have taken advantage of this potentiality by migrating in large numbers to the S. E. Asian countries themselves and participating in the various and progressive branches of their economies. But it is extremely doubtful if India can avail herself of this method of sharing in the future prosperity of S. E. Asia.

SCIENTIFIC RESEARCH OF CHINA'S CIVILISATION

HARVARD UNIVERSITY'S "PROGRAM ON CHINA"

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or regional studies invented and developed for the war. Several tentative conclusions can already be drawn from the progress of the regional studies program on China which began operation in the fall term of 1946.

Four Conclusions

First: Regional studies in peacetime must focus upon a civilization or culture, rather than a mere geographical area. Such studies seek understanding for the guidance of long-term future relations in diplomacy, trade, and intellectual contact, instead of for the immediate short-term purposes of warfare. Historical traditions and social institutions are therefore more important in peacetime study; and such matters as topography and transportation become less immediately important. In other words, the background of a diplomat, a foreign correspondent, or a business analyst must be a bit different from that of a military man.

Second: Study of a foreign culture provides a basis for comparative studies. Thus we can examine the Chinese way of life and thought in comparison with and in contrast to our own. This means that Confucian ethics can be explored from the point of view of Western ethics, Kuomintang authoritarianism from the point of view of Western political science, and problems of land reform from the point of view of economics.

In the end, the civilization of China can be understood only by viewing it in perspective through the eyes of each of the social sciences and other disciplines which give us our view of human society. Regional studies thus become of necessity an experience in the comparison of civilizations. In giving us a picture of Chinese life they give us also a picture of ourselves. Some of the ideals of Hollywood, for example, when analyzed from a Confucian point of view, might seem to be not only non-Confucian and inimical to the stability of Chinese society but also inimical to the stability and sanity of American life.

Third: Both geographical areas and alien ways of life must be studied by a synthesis of the disciplines. This fact reinforces the current trend toward integration among the social sciences. When the economist, geographer, anthropologist, political scientist, and historian make a combined approach to the life of the Chinese people, they not only help us to understand our China problem, but also demonstrate the greater degree of understanding of the modern world to be achieved through a synthesis of disciplines.

Problematic China

The emphasis in the program is upon the immediate and future problems which this country will face in China and the areas surrounding it. The past comes under scrutiny for its effect upon the present and future of China and not for itself alone. The subject matter of the course has been divided into three main sections: first, the historical development and structural functioning of the traditional society of China before its modern contact with the West; second, the invasion of Asia by the Western world, including the economic processes and the flow of ideas which during the last century have so thoroughly upset the ancient civilizations of the Far East; third, the Asiatic response to the Western impact, including the great national movements in thought and in politics whereby the modern Chinese and other peoples are remaking their ancient life and meeting the vast social problems which now confront both them and us.

Within this framework it has thus far proved possible to analyze and explore the problems of fact and interpretation which China presents, from the point of view of all the relevant disciplines. The seminar is highly informal. Sessions are held once or twice a day in the seminar room in Boylston Hall, which also serves as a small library of books, maps, journals, and source materials. Lectures are followed by about twenty minutes of questions and discussion.

Chinese Language

One thing that makes the program an advance over prewar studies is the fact that all students in it are spending half their time in developing a mastery of the Chinese language. The lectures, discussions, and reading in the regional study program are designed to occupy half a students' full time, at the rate of two full courses. The other half of his time is monopolized by a streamlined course of instruction provided by the Department of Far Eastern Languages.

As is generally known, one of the great wartime advances was in the field of linguistics. By intensive methods and the careful application of new philosophical principles, it has become possible to give a modern student a sound foundation in Chinese or Japanese in a period of time which a few years ago would have been incredible. The Department of Far Eastern Languages, under Professor Serge Elisseeff, who is also Director of the Harvard-Yenching Institute, has contributed its unparalleled teaching competence to this program. Professor Heischauer of that Department has taken the lead in the initial survey of Chinese history. The language instruction is under Mr. Francis Cleaves.

As a logical development of his training, each student in regional studies will be expected to combine his analysis of Chinese society with the use of materials in the Chinese languages. Since only an infinitesimal part of the literature and documentation in Chinese is available in translation, the narrow confines of our knowledge of

China can be broadened only by those who read Chinese. The language is in fact a key to the understanding of Chinese psychology and Chinese institutions as well as to the use of the vast stores of research material which Chinese civilization has produced.

In effect, the student in regional studies is expected to become a triple-threat man. He should have a view of Chinese society as a whole, some reading knowledge of the language, and finally, a special competence, if he so desires, in one discipline such as economics, government, or geography. The present year's program (the first half of the normal two-year period of instruction) is designed to give him a foundation in the first two of these competencies. In the second year it is expected that he will be able to lay a foundation in one of the established disciplines. After two years of study, completing a thesis, and passing a general examination, he receives an M.A. degree and is then prepared either to go into practical affairs at once or to seek a Ph.D. in one discipline. There is of course no short-cut to acquiring proficiency in all three of these directions, and none of them can be neglected.

The future of regional studies may lie as much in undergraduate as in graduate instruction. More efficient methods may be devised, and higher standards will certainly be evolved. But there can be little doubt that the present program, or something very similar, will be found to be the most effective way in which the very considerable and diverse resources of the University can be brought to bear upon our urgent national problems in the Far East and make their proper contribution both to specialized training and to general education.

For instance, any attempt to understand modern Chinese Buddhism must include some appreciation of Confucianism and Taoism, some analysis of China's politics and economics, a view of primitive Buddhism in India, some experience of Buddhist art, and finally an understanding of the role which religion plays in the lives of individuals and in human society. To take another instance, the views and actions of Chiang Kai-shek cannot be made intelligible without reference to the traditional position of the Emperor in the Chinese State, the inherent authoritarianism of Confucian doctrine, the influence of the Bolshevik example of party dictatorship upon Sun Yat-sen, land tenancy in North China, Chinese imitation of Japanese militarism, and the Methodist missionary movement. Our universal need for the interpenetration of discipline becomes axiomatic when we study a foreign culture.

Finally: Regional studies provide the best hope of our catching up with the intellectual lag created by our ignorance of the civilizations of the East. Now that our fate is so intimately bound up with the fate of Asia's millions, we are under great pressure to break out of the Eurocentrism which has characterized Western thought. How often have fluent social scientists, seemingly versed in all aspects of their discipline, grown silent and evasive when

asked about Asia! How often do our leading commentators and columnists when confronted with problems of Asia's future fail to express intelligible views!

Training of Personnel

More immediately, one purpose of the new program is to work out a fresh academic technique which will be applicable to the study of any well-defined geographic and cultural area—the Slavic area, for example—quite as much as to the Far East. We are also interested in the broad-training of personnel for administration and government service, for journalism or a career in business, quite as much as for research and teaching. Finally it should be possible, as part of the development of techniques and of trained personnel, to initiate and carry through a series of research studies which will benefit by the synthesis of disciplines above-mentioned.

With these considerations in mind the regional study of China has been concentrated in a graduate seminar. In the seminar are enrolled a limited group of fifteen students, all of whom have had wartime training in Far Eastern languages and experience in the field in China or Japan. This group of students was selected from a large number of applicants on the basis of high standing in college work before the hostilities began, as well as their training and experience during the war. In addition, there have been admitted to the seminar as students six other men of comparable experience. Two correspondents at Harvard on Nieman Fellowships, two are instructors in History, and two are studying at Harvard on fellowships from foundations. This is an able group, of varied backgrounds.

Specialist Instruction Staff

The instructing staff in the seminar includes four persons whose time is in large part assigned to it and a larger group of Faculty members who are cooperating in the guidance and conduct of the program. Professors Friedrich and Emerson in Government, Professor Parsons in Social Relations, and Professor Mason in Economics have contributed both to the guidance and to the content of the program. In this way nine departments or disciplines are participating in a single integrated course. The instructors include one or more specialists from the Departments of Geography, History, Far Eastern Languages, Government, Fine Arts, Social Relations, Economics, Anthropology, and Indic Theology.

In addition to these specialized personnel at Harvard, it has been possible to draw upon personnel in government service for occasional lectures which serve to emphasize the connection between this work and practical affairs, and to indicate the problems and possibilities which are likely to be met by the students after their academic training is completed. Additional specialists in the field have also been invited from other centers. We are thus engaged in integrating the intellectual resources not only of Harvard but of the larger national community.

ECONOMIC CONDITIONS IN TAIWAN

Hongkong as a Base for Hedging & Security

The two outstanding economic problems confronting Taiwan during 1946 were the repair of damages and dislocations caused by war and the implementation of the transfer from Japanese to Chinese direction of the agricultural, industrial, and commercial activity of the island, which was formally restored to China in October 1945. Much repair or war damage, particularly that to industrial installations, remains yet to be accomplished.

Greater progress has been made in meeting the second problem, to the extent that probably less than 300 Japanese "advisers" are being retained by the Chinese administration following the completion in December 1946 of the second and, final mass repatriation movement of Japanese nationals. There still exists, however, the corollary problem of obtaining, in adequate number, competent replacements for the repatriated Japanese technical personnel.

This continuing difficulty is of outstanding prominence in the overall economic scene inasmuch as all types of economic activity are, so far as possible and pursuant to government policy, channeled into the hands of official or semi-official agencies—thereby rendering largely unavailable benefits that might otherwise be gained through utilization of the "know-how" and efficiency of competitive private enterprise.

Low Agricultural and Industrial Production

While comprehensive official or private statistics are not procurable, both agricultural and industrial production during the 1946 was at a low ebb. As a whole, however, production was undoubtedly greater than during 1945, when as a result of military operations in the Pacific supplies of fertilizer necessary for agricultural purposes were almost entirely cut off and the Japanese industrial effort on Taiwan had been brought to a virtual standstill. With arrangements already being carried out for the importation of substantial quantities of chemical fertilizers and the possible return to cultivation of sizable portions of land withdrawn for military uses during the war, the outlook for a further increase in agricultural yields is favourable. A return to prewar levels of production is nevertheless not anticipated for at least several years.

Industrial output, estimated by non-official observers at the close of 1946 as being 10 to 15 percent of normal plant capacity, may likewise be expected to increase during 1947 as a result of the completion of additional rehabilitation operations.

Among factors likely to limit the rate of increase in industrial pro-

duction, however, may be mentioned shortages of replacement and repair materials, rising costs, "squeeze" and inefficiency growing labour unrest arising primarily out of charges of discrimination against Taiwanese workers in favour of those arriving from the mainland, and the withdrawal of goods and assets from Taiwan without compensatory return to the economy of the island.

Island Products Purchased as Hedge Against Inflation

Excess Taiwan currency funds are being used by local organizations and firms to acquire substantial quantities of Formosan agricultural products as protection against inflation. While statistics are again unavailable, it is reliably learned that a sizable proportion of such purchases which are being made for hedging purposes by both the official Taiwan Trading Bureau and by private merchants, and consist primarily of tea, camphor, and lumber, are being shipped to Hong Kong as the nearest source of foreign currency. These shipments, which are not made against purchase orders, are accorded customs export clearance upon the submission of letters of guaranty promising the production of foreign exchange at some unstated date in the future.

Small Stocks of Export Products

Actual stocks of regional raw commodities now on hand are difficult to estimate but, because of low production levels and shipments of certain products to Hong Kong as an inflationary hedge, are generally not unduly large. The principal foreign tea export firm at Taipei estimates total stocks of unpacked teas remaining on the island at the beginning of 1947 at the relatively small figure of 1,000,000 pounds and packed teas at possibly not more than 750,000 pounds. The latter estimate is only tentative, however, since packed teas have been purchased in considerable quantities by firms operating on Taiwan that do not ordinarily engage in the tea trade but are not otherwise able to dispose of their surplus local currency funds.

Warehouse camphor stocks are similarly small, and production of refined camphor through February 1947 has been earmarked to fulfill short sale commitments already made at Shanghai. Supplies of refined or semirefined sugar on hand at the time of the take-over from the Japanese are nearing depletion, and current production is but a fraction of prewar rate, of 30,000 long tons for the 1946-47 crop year compared with an average annual production of approximately 1,000,000 long tons during the 10-year period from 1930 to 1940. Total production of salt on Taiwan is allotted for shipment to Japan under an arrangement entered into by the official Central Trust of China at

Shanghai, leaving no surplus stocks warehoused locally. Warehoused stocks of canned pineapple suitable for export are estimated at 30,000 cases. An export embargo in the case of rice prevents its open shipment to mainland or other markets, and considerable quantities are believed to be hoarded on the island awaiting a higher market.

Consumer Goods in Short Supply

There are no important warehoused stocks on Taiwan of locally manufactured industrial goods or imported products; the low rate of industrial production and the relatively meager volume of imports reaching the island (other than supplies furnished by UNRRA) tend to cause both to enter into consumption shortly after becoming available.

(Compare previous reports in our issues of April 30, pp. 210-11.)

REPORT FROM THE MONGOLIAN PEOPLE'S REPUBLIC

The most important industrial combine in the Mongolian People's Republic (M.P.R.) are the Choibalsan works in Ulan-Bator, the country's capital. The works built in 1934 are named after the president of the M.P.R. Govt. In the factories of Ulan-Bator most young workers are trained in cadres. The combine includes power stations, leather and shoe factories, cotton spinning mills, knitting and weaving mills, machine shops. The M.P.R. will be 26 years old in July 1947. The government is socialist-soviet. Foreign trade is regulated by the Republic's Foreign Trade Monopoly; internal trade is controlled by Govt. and people's cooperatives.

After the soviet system of government was introduced in M.P.R., industrialisation in the otherwise nomadic and partly pastoral country started. In 1925 the first leather factory was started in the city of Altan-Vulag; this marked the beginning of industrialisation of the country. During recent years meat combines, a lumber mill, brick works and an energetics combine were established. Latest reports state that a factory for constructional materials, and an auto-mechanical factory were started. Several coal mines have also been opened.

The USSR has been supporting the Republic by supplying most capital goods and trained personnel. Transportation is well developed; railways have been built, motor highways are being currently expanded and modern air transportation has fundamentally changed the character of the people's mode of life.

All factories are owned by either the government or cooperatives. The total value of goods produced in industrial establishments of the M.P.R. in 1941 was 64 million turgik; one turgik, linked to the ruble, equals 1.3 rubles; 21.50 rubles equal £1.

EXCHANGE & FINANCIAL MARKETS

The Vicious Cycle of Inflation

The deterioration in the price position of commodities, foodstuffs, gold and foreign exchange all over China is growing. Week after week witnesses new record low rates. Unrest and dissatisfaction are spreading; the general feeling in major Chinese cities like Shanghai, Canton, Hankow is very uneasy.

The local market recorded for the week under review (May 27-31) the following minimum prices for CN\$ spot HK\$163 (for one million CN\$), forward \$1.074, T.T. Shanghai \$137, T.T. Canton \$141. The black exchange markets in China were active and the following maximum quotations were recorded in Shanghai: US\$: CN\$35,000; HK\$: CN\$7,300; one troy oz of gold: CN\$1.9 million (equalling a cross rate of US\$53, a large increase against the previous week when the gold cross rate moved around US\$45/47).

The Canton black exchange and bullion markets were equally active: the HK\$ at first quoted CN\$6,400, then 6,500 and topped 6,700 at the end of last week's session. Gold was recording the biggest turnover since the introduction of the "Economic Emergency Measures" of last Feb. 17. Prices rose to CN\$1.8 million per tael.

The Shanghai Municipality compiled a cost of living index for May on a new basis which established also the latest computation figure for the payment of wages and salaries; it was stated officially that cost of living has increased by 23,400 times over 1937 (prewar year). According to this figure the current unofficial exchange rate for US\$ should be around CN\$77,000, however, taking into consideration the relative depreciation of the purchasing power of the US\$ both in U.S. and other markets, the current US\$ price should be around CN\$36,000. It seems that the financial potentates of Shanghai, who after all control the unofficial foreign exchange markets in China, are calculating the value of US\$ on the basis of Chinese Govt compilations of the mounting cost of living index, which is only another and more polite way to circumscribe the nasty word of inflation.

The Gold Market

After long delay, finally last week (May 27-31) started the come-back of gold. The highest price last week was \$278 per tael which, at the current US\$ draft and US\$ T.T. rates respectively, would equal about US\$48 and US\$45 per one troy ounce. The Canton and particularly the Shanghai cross rates were higher than Hongkong.

Considerable sales of local gold to China were put through and the Canton billion market was booming. Buyers from many South and Central China cities were insistent with orders, caused mostly by the soaring gold prices in Shanghai. The rumour of an intended rise of the U.S. Treasury price of gold, although believed in many quarters, was too silly to be taken seriously by the trade; nevertheless, even a silly rumour helps. Gold buyers from Yunnan and Hunan were most prominent in the Canton market which induced local holders to ration their sales, expecting as they did higher prices.

The US\$ Transactions

Trading in notes, drafts and T.T. was stagnant. Prices hardly moved. The tendency for T.T. New York remains sluggish. Sellers were coming forward in growing numbers but the hedgers are still confident of improved rates within a few weeks. There was some demand for T.T. New York coming from Indian sources; a number of Indian and European gold brokers have secured import permits for gold in Bombay but they cannot supply the necessary US\$. Hongkong is one of the few remaining spots where US\$ can be bought at the so-called open funds rate. On the other hand, the confused financial conditions in China brought about a still larger influx of overseas Chinese remittances with the resultant effect of sales pressure by US\$ demand draft recipients.

While previously there was brisk import business with America, the general reduction of China trade has curtailed import requirement, large quantities of American goods ordered from Hongkong, paid here in US\$, were finally shipped into Canton, Swatow and other South China places for distribution all over the country. The decline in officially recorded and smuggled trade with China, a direct consequence of the decreasing purchasing power of the people in China, has recently led to lack of interest by importers of U.S. goods.

The future of the T.T. New York rate is linked to the US\$ draft rate; the current premium enjoyed by T.T. over drafts of about 5% is considered the limit under present conditions.

Bank Notes Business

Pound sterling notes sold at \$14.25 to 14.35 in a small market which is still expecting an early announcement regarding the official acceptance of £ notes of small denomination.

Indochina piastres were first week, later rallied but no large business was put through. The peace reports from Saigon and the Vietnam radio stations are often contradictory; thus the speculation has to sit it out on the fence. The bears have let out the secret that the note issue in Saigon is steadily increasing and that therefore, even in case of the realisation of early peace, the value of the I.C.\$ must remain low. However, the I.C.\$ is linked to the French franc and thus to international currencies, and, should peace be re-established in Indochina, the resumption of a very large export trade will quickly lead to a rapid reduction of the present note issue. Everything depends on the outcome of the current peace negotiations.

The Nica guilder did not find any support in a bearish market; the record low price of \$21½ (for 100 guilders) was reached on May 31. The Siamese baht showed weakness and dropped to \$19.

Remittances from Malaya

In 1943 an amount of Straits \$13,612,662 was remitted from the Malayan Union to India through the various post offices in the Union.

Chinese in British Malaya remitted in 1946 a total of Straits \$9,139,741. The remittances for the current year from Chinese residents in Malaya out of the country is on the increase when compared to the 1946 figures.

Banks in Singapore

The following twelve banks in Singapore are authorised to approve foreign currency applications, and sterling area currency transfer forms for all imports into Malaya, (the countries from which import is made appearing against their names):

Hongkong & Shanghai Banking Corp; Chartered Bank of India, Australia and China; Mercantile Bank of India Ltd.; Eastern Bank Ltd.; Overseas-Chinese Banking Corp. Ltd. (all currencies and all territories); National City Bank of New York (U.S. \$ and Philippine pesos, Canadian \$, Territories, U.S.A. monetary area and Canada); Netherlands Trading Society; Netherlands India Commercial Bank (Dutch mon. area: Territories, Dutch mon. area); Banque de l'Indo-chine, (currencies of French mon. area); Territory, French mon. area); Bank of China; Kwangtung Provincial Bank; Lee Wah Bank Ltd. (Chinese national dollar, Territory, China).

State Bank of North Borneo

The Government of the Colony of North Borneo and the Colonial Office have had under consideration the future of the State Bank of North Borneo in consequence of the transfer to the Crown of Borneo sovereign rights and assets under the agreement signed with the British North Borneo Company on June 26, 1946.

Under the administration of the British North Borneo Company, the State Bank of North Borneo functions as a department of the local Treasury. It has been decided that the Bank should not continue as a Governmental undertaking, and that, other arrangements having meanwhile been made for the provision of banking facilities in North Borneo, its affairs should be wound up as quickly as possible.

The task of discharging the liabilities and realizing the assets of the State Bank is complicated by the dispersal and destruction of the bank's records during the Japanese occupation. The Chartered Bank of India, Australia and China has, however, undertaken to assist the Government of North Borneo by reconstructing the State Bank's records as far as possible and preparing for the North Borneo Government a comprehensive report of the bank's affairs.

Persons who have claims against the State Bank have to submit to branches of the Chartered Bank at Jesselton and Sandakan or London, full details of the claims in question.

With a view to eliminating any further delay in meeting depositors' claims against the State Bank the local representatives of the Chartered Bank, have been authorised to pass on to the Government of North Borneo for immediate payment, while the above investigation is in process, all claims against the State Bank which can be recommended for payment. In cases where claims cannot be so recommended without further investigation, for example owing to the destruction of the records of the North Borneo Government, these will be decided in the light of reports received from representatives of the Chartered Bank advising what steps are practicable to meet such claims in part, pending the final reconstitution of the State Bank's record. Transaction which took place on deposit accounts during the Japanese occupation will be governed by the provisions of Debtor-Creditor Legislation which it is proposed to enact dealing with the valuation of transactions during that time.

The Government of North Borneo is fully conscious of the urgency of meeting valid claims against the

HONGKONG STOCK & SHARE MARKET

The market moved irregularly during the trading week of May 26-30 (there are now only five trading days during a week as reported in our previous issue). As observed during the preceding period there was again very little doing and trading was narrow owing to lack of fresh incentive. However, enquiry in a number of popular shares does not lead to business as little scrip is on offer.

H.K. Banks and Union Insurance shares remained in steady demand at rates respectively \$1910/1940 and \$790/805 (ex dividend). Canton Insurance and H.K. Fire shares were neglected, last quotations having been respectively \$420 and \$310.

All Public Utility shares ruled easier with Electrics, Telephones and Lights on offer at \$55½, 51 and 15.75 respectively. Trams showed some strength and quoted \$24/24½ (ex dividend and bonus).

Wharves after declining to \$220 at which rate several hundreds of shares were liquidated improved with little support to 235. China Providents were

State Bank and of winding up its affairs generally from the point of view of both the individual and general economic interests of the territories as a whole.

Fast Advance of Inflation

During the first four months of 1947 cost of living in Shanghai has increased 500 to 600 percent. The Shanghai Municipal Govt has compiled the following financial index.

	1947	Jan.	Feb.	Mar.	Apr.
Gold Bar	100	152	126	126	
US\$ Dollar	100	173	172	172	
HK Dollar	100	174	184	184	
Bond C	100	229	543	626	
Chinese stocks	100	226	408	750	
Foreign stocks	100	202	294	585	

Gold, US\$ and HK\$ index figures are based on the official rates of the Central Bank of China; the unofficial quotations have increased more than the current prices for Chinese and foreign shares.

taken up at 23½ ex dividend. H.K. Docks closed easier with a good number of shares offering at 30½ but Shanghai Docks showed some improvement changing hands at \$18.

Land Investment shares lacked support in the somewhat bearish market and closed easier at \$79 ex rights; rights found buyers at \$28. Humphreys were firmer with some demand from investors but very little scrip on the market; the week's closing rate stood at 24½ buyers.

Cements improved to 24 after business was put through at 21.75. There was hardly any interest shown in other industrial shares, H.K. Ropes being neglected at \$14, and Canton Ices previously quoted at 7½.

Hotel shares were taken up to 24 and remain in demand at 23½ in spite of further and not inconsiderable liquidation. Much speculation centres around the sale of the Palace Hotel in Shanghai; it seems that until now the whole amount of the purchase price could not yet be transferred to Hongkong and pessimists predict that eventually the transaction may be cancelled since the buyers (a Chinese syndicate) are unable to fulfil the condition of the contract i.e. the passing of the consideration in foreign exchange. The Palace Hotel is at present still under the management of the Hotel Co. Shareholders were previously sanguine about a substantial dividend and a return of capital; rather comprehensive building propositions of the Hotel Co. were discussed and the ultimate liquidation of the large properties of the Hotel Co. both in Shanghai and Peiping were taken for granted anticipating a subsequent re-investment of the funds obtained from sales in China in development plans in the Colony. Now all these hopes must be held over for more auspicious days.

Star Ferries were neglected and are on offer at 118; with the earning position of the Company much improved over the last business year there should be no reason why the quotation should drop under 120. Dairy Farms after coming to small business at 62 quickly rallied to 67 with little scrip changing hands at intermediate rates.

HONGKONG UNOFFICIAL EXCHANGE RATES (in Hongkong \$)

May	Chinese National \$ (per one million)										I.C.\$ (per 100)	Guilder Baht (per 100)	
	Gold per Tael	High	Low	High	Low	High	Low	T.T.	Canton	USS\$ Notes	Drafts	T.T.	
27	266½	262	166	161½	135	125	155	153	467½	469½	494	12.30	24.70 20.50
28	269¾	265	168½	166	135	130	162	160	466½	469	493	12	24 20.40
29	271¾	267	169	166½	130	125	158	155	464½	468	494	12	23.50 20.40
30	278	269½	166½	163	123½	117½	138	142	462½	467	494	12	22.20 20.40
31	276½	272½	163	163	112½	107½	137	141	466	469	494	12	21.50 18

HONG KONG COMPANIES' REPORTS

THE CHINA
PROVIDENT LOAN
& MORTGAGE
CO. LTD.

The 46th annual meeting of shareholders, held on May 31, was presented with the Accounts for the year 1946. However, actual operations of the Company were only commenced last July so that the Accounts reflect only five months working plus about \$100,000 for rent from Govt. From Godown Working Account the amount of \$506,483 were transferred to Profit & Loss Account.

The net profit for the year 1946, after deducting all charges were \$488,286, to which have been added the proceeds of sale of Mongkok property and sink-

ing fund no longer required of \$186,846, unclaimed dividends forfeited \$15,747 and the balance brought forward from 1945 Account \$118,266, making a total of \$809,146 has been distributed as follows:—

Dividend of 75 cents per share \$331,859, Bonus of 25 cents per share \$110,553, Bonus to the staff \$40,000, Reserve for Claims \$10,000, Carry Forward to 1947 Account \$316,933. Total \$809,146.

The Fixed Assets of the Company as per Balance Sheet at Dec. 31, 1946, total \$2,098,602, the largest item being \$1,401,522 for land followed by buildings valued \$641,802. The assets of this Company are greatly undervalued. Current Assets total \$1,237,394 and Current Liabilities \$662,803 revealing a high degree of liquidity. The investments of the Company total \$272,246

(H.K. Govt Loan, and 25,226 shares of Sandakan Light & Power Co., Ltd., a subsidiary of company the China Provident).

The Company will soon launch a thorough reconstruction of its war-damaged properties for which purpose new capital will be required. The Chairman of the Company, Mr. S. M. Churn, expressed himself very optimistically about the future of his Company and the Colony. At the annual meeting Mr. Churn stated:

"I lay no claim to any special vision, but I should be surprised if in the near future, this Colony would not increase greatly in importance as a commercial centre, and the volume of its trade would not expand very markedly. Needless to say, if this comes about, our Company will have a very prosperous time ahead of it. As to the immediate future, I can only assure Shareholders that our income from storage is gratifying, and should lay the foundation for the presentation of a favourable account next year."

The Company owns over 30 godowns measuring about 190,000 square feet of useable space and about 93,000 sq. ft. of godown area which suffered demolition during the occupation of the Colony.

In our previous issue, page 40, reference was made to the increase of the Company's authorised capital to \$10 million.

Directors: Mr. S. M. Churn (Chairman), Sir Robert Ho Tung, Sir Robert Kotewall, Messrs N.V.A. Croucher, D. H. Blake, Li Tse-fong, J. W. Clague. The Managing Director of the Company is Mr. R. A. Wickerson. Secretary: Mr. A. D. Learmonth.

HONGKONG
TRAMWAYS LTD.

Name of Stock	Pre-war Price (Dec. 6 1941)	March 29	April 26	May 30
H.K. Govt. Loan 4%	\$104 1/2	107	107 1/2	107 1/2
H.K. Banks	1445	1710	1,840	1940
London Register	\$76 1/2	106	110 1/2	114
Bank of East Asia	\$ 77	148	102	115
Canton Insurance	250	430	460	420
Union Insurance	450	715	760	805
China Underwriters	50 cts	1	1	1.80
H.K. Fires	200	325	315	310
Douglas	120	200	215	270
Steamboats	11	12	11	11
Union Waterboats	6.55	40	49	45
Indo-China Pref.	100	120	100	106
Indo-China Def.	110	300	280	385
Shell	s. 63 1/2	102/6	105/—	101/3
Wharves	\$103	170	240	230
Docks	19.40	20	27 1/2	30 1/2
Providents	7.80	17	24	23 1/2
Hotels	4.50	21 1/4	24 1/2	24
Lands	38.15	90	96	80
Humphreys	8.50	22	28	24 1/2
Realties	4.30	18.75	24 1/2	16
Chinese Estates	102	155	190	190
Trams	18	40	58 1/2	24
Peak Trams, old	6 1/2	9 3/4	9	11
Peak Trams, new	3 1/4	5	4 1/2	4 1/2
Star Ferries	55	88	115	118
Yaumati Ferries	23.75	25	32 1/4	34
China Lights, old	6.90	13	15 1/4	15 1/4
China Lights, new	3.60	8	11 1/2	11 1/4
Electric	22 1/4	39 1/2	49 1/2	56
Macao Electric	18 1/4	12 1/2	19	24 1/2
Sandakan	12.60	6 1/4	7 1/2	14 3/4
Telephones, old	25.75	42	50	52
Telephones, new	9 1/2	23	31	32
Canton Ices	1	5	7	7 1/4
Cements	18.30	16	25 1/4	23 1/4
Ropes	11 1/2	10	15	14
Dairy Farms	19	55 1/2	59 1/4	68
Watsons	14 1/4	32	47	42 1/2
Lane Crawford	8	27	39 1/2	43
Sinceres	3.70	8.40	8.80	9.25
Wing On H.K.	39	93	100	130
China Entertainment	6.90	26 1/2	28 1/2	30 1/2
Constructions	1.80	5.80	8	8 1/4

The ordinary yearly meeting of the Company was held on May 29, followed by an extraordinary meeting of shareholders which adopted two resolutions with regard to the increase of the authorised and issued capitals (cf. our issue May 7, page 217).

The previous authorised and issued capital amounted to \$3,250,000 (650,000 shares of \$5 fully paid).

The following changes will now take place retroactively as from Jan. 1, 1947:

Authorised capital: by creating 3,350,000 new shares of the nominal value of \$5 each, the total number of shares will be 4 million amounting to \$20,000,000.

Issued capital: by capitalising the amount of \$6,500,000, taken from the Fixed Assets Revaluation Reserve (totalling \$8,567,801), 1,300,000 new shares are issued to shareholders at the ratio of two new shares for one old share, credited to shareholders at the nominal value of \$5 per share. Thus the total issued capital amounts to 1,950,000 shares of \$5 each (650,000 shares of \$5 paid up, and 1,300,000 shares of \$5 credited as paid up) aggregating \$9,750,000.

The Tramway Co. has revalued its fixed assets after the undertaking was professionally investigated; the track, rolling stock, plant, property, electrical and general equipment are valued as at Dec. 31, 1946 at \$8,779,137. With other properties the total Fixed Assets amount to \$9,152,600. Current Assets total \$3,593,182, and Current Liabilities \$2,680,821.

The Balance on Working for the year ended Dec. 31, 1946 totalled \$2,433,178, the Profit for 1946 aggregated \$2,273,359. Out of this amount a dividend of \$2 per share was paid, consuming \$1,300,000; the amount of \$450,000 was transferred to Special Contingency Reserve and \$364,728 were transferred to General Reserve Account, while \$158,631 have been carried forward to 1947.

The current market price is about \$24 (ex dividend and rights). Recently Tram shares went up to \$84 but then were traded at around \$72/75 (incl. rights of 2 new shares and \$2 dividend). The market price about one year ago was only \$15 to 16; shareholders have, within 12 months, increased their capital by 350 percent.

The Company owns a fleet of 112 cars; during 1946 only 56 cars on the average were operated. Deliveries of essential equipment and maintenance material has been slow but recently has come here more steadily. At present the Company is working on a level of 85 service cars and by autumn regular service on all routes will be resumed as before the war (the Company operates only on the Island while in Kowloon no trams are running). In 1946 over 50½ million passengers were carried which figure, does not include the very large number of persons who did not pay their fares. In 1941 the Tram Co. carried about 80 million passengers. A total of 1,350 persons are employed in regular and full-time jobs now against only about 1,000 before the war.

Directors: Hon. Mr. D. F. Landale (Chairman), Sir Shouson Chow, Messrs. N. O. C. Marsh, M. K. Lo, H. D. Benham. The General Manager of the Company is Mr. W. F. Simmonds; Secretary: Mr. W. H. Paterson.

HONGKONG REALTY & TRUST CO. LTD.

At the annual meeting of the Company for the year ended April 30, 1947, held on May 28, it was announced that the liquidation of the H.K. Realty & Trust Co. Ltd. will be recommended since all land and buildings but one undeveloped lot in the Repulse Bay area (97,110 square feet) have been disposed of. The Company sold previously six bungalows and an undeveloped property at Repulse Bay and only recently disposed of the "Lido" building. Fixed assets as per Balance Sheet at April 30, 1947, amount to only \$14,435.

The profit made for the year ended April 30, 1947 amounts to \$1,477,749, derived mainly from sale of properties and investments. Shareholders received a distribution of \$6 per share, making a total of \$1.2 million. The authorised and issued capital of the Company amounts to \$2 million (200,000 shares of \$10 fully paid up). The current market value is about \$17 ex distribution of profits from sale of investments.

If the Company goes into liquidation shareholders may receive about 80% more than the face value of their shares; investments of the Company amount to \$1½ million as per Balance Sheet but according to market quotations at April 30, about \$2.4 million. Investments are classified as follows: Banks \$180,392 or 10.69% Insurances \$280,115 or 18.67%, Property and Wharf shares \$512,490 or 34.17%, Utilities \$332,394 or 22.17%, and other shares \$214,564 or 14.3%, aggregating a total of \$1,499,957. Current Assets, after deducting Current Liabilities, total \$1.1 million. The sale of the remaining property will improve the cash position, so that eventually the shareholders may be able to obtain more than \$3½ million, i.e. about 80 percent over the paid up value of their shares.

Directors: Mr. J. Fleming (Chairman), Sir Shouson Chow, Messrs. E. M. Raymond, F. C. Barry, P. K. Kwok and D. C. Davis.

HONGKONG & YAUMATI FERRY CO. LTD.

The Company held its 18th ordinary annual meeting of shareholders on May 24, when the Reports and Balance Sheets for the period ended Dec. 31, 1941 and the period ended Dec. 31, 1945

were submitted. In 1941 there were only 11 working months, and the estimated net profit for that year of \$413,595 was carried forward to 1945 Accounts. The net earnings in 1945, after providing for depreciation, totalled \$416,316.

Upon the outbreak of the war the Company suffered considerable losses. Its prewar fleet comprised 31 launches and 2 steel lighters, maintaining 6 cross-harbour and 5 other ferry services. Until recently the Company recovered only 26 ferry vessels, out of which 12 have to undergo repairs.

The 1945 Accounts show War Losses of \$2,236,310, the largest item being lost launches and other craft valued at \$1,829,168. These war losses have been reduced, as per Balance Sheet on Dec. 31, 1945, to \$126,063, after 1941 and 1945 profits and Typhoon & Accident Fund and Reserve for New Ferries Account were deducted.

The net earnings for 1945, i.e. only for about 3 months after the surrender of Japan, amounted to \$15,329 which was transferred to War Losses Account.

The Company's capital consists of: Authorised: 7,500 preferential shares of \$10, and 92,500 ordinary shares of \$10, totalling \$1 million. Issued: 7,500 preferential shares of \$10, and 76,500 ordinary shares of \$10, totalling \$840,000. The Ferry Vessels and other craft are valued as at Dec. 31, 1945, at \$509,518 (against \$2,123,175 in 1941). Current assets amount to about \$730,000 against Sundry Creditors and Credit Balances of \$654,000.

The 19th annual meeting for the period ended Dec. 31, 1946 is expected to be held shortly.

The franchise of the Company will expire by the end of 1948 and its renewal is under negotiation. Bound up with this issue are the Company's claims for compensation of war losses.

The current market price is about \$34. Before the war started in 1941, the market price was about \$23/24. During recent months the quotation moved around \$22/25, and only in the bullish sessions of the latter part of April the price went over \$30, in sympathy with the general upswing.

Directors of the Company: Messrs. T. N. Chau (Chairman), Lau Tak-po (Managing Director), Li Sing-kue, Cheng Kwok-on, Kwok Chuen, Chan Kam-yung, Wong Kwok-shuen, Choy Wai-hung and Young Tsun-dart.

COMMERCIAL MARKETS

Conditions In Wood Oil Market

The chaotic conditions existing in the Wood (Tung) Oil market today has become the topic of general conversation, and measures are being studied in order to stop the continued decline in price.

When one considers that this is China's most important cash crop, and a steady supplier of U.S. Dollars one can readily understand the growing concern among traders and bankers.

In the past two months the price of Wood Oil in America has receded from 37 U.S. cts. per lb. to 23 U.S. cts. per lb. a drop of approximately 40%, and in Hong Kong it dropped from a peak of HK\$250 per picul, to only HK\$115 per picul.

There has been little legitimate business in Wood Oil with America in the past several months. Three types of Organizations are today engaged in the exporting of this commodity, which in order of their present importance are:

- (a) Chinese Semi-Government Organs.
- (b) Currency & Financial Operators.
- (c) Established Marketing Merchants.

It is really not surprising that established merchants have lost their business to the first two categories, because their regular customers have steadfastly refused to build up stocks at high prices, whereas Government Organs are working on some future scheme: on the other hand, currency manipulators and operators make use of this trade to build up U.S. Currency Credits, which are directly linked to the unsatisfactory China demand for American Currency.

It is not unnatural therefore, that in the past three months tung oil arrivals in America have reached 16,000 tons whereas consumption could only have been 9,000 tons. In other words wood oil has been forced upon the market in excess of consumer requirements, and without importers being desirous of building up supplies at peak prices.

The chief cause of the decline is attributable to a general recession in price for all Vegetable Oils and Fats, which in certain cases have dropped in value during this same period by over 60%; but the main contributing factor for the violent drop in the wood oil price is that due to its high price consumption has been reduced in America to about 3,000 tons per month and new formulas were introduced during the war, which permitted the use of cheaper synthetic substitutes for wood oil in the Paint and Varnish trade.

It would be worthwhile for persons desiring to enter this business to bear in mind that the marketing of wood oil in America is not only a

narrow, and restricted one, but in every sense a very specialized line, and the mere fact that one sends a consignment of wood oil to New York does not mean that it will bring a fair U.S. Dollar return. It is certainly quite different from the gold bar or cotton markets in Shanghai.

Tung Oil Slump

There was again a further and drastic decline in the local and New York tung oil quotation. On May 31, one picul (133.33 lbs) stood at \$116, a drop of \$20 against the previous week, and compared to mid-May a decline of over 20%. The New York market quoted nominally 24 U.S. cents but small business was transacted at 22 cents and 21½ cents per one pound. All other markets (French, Belgian etc.) were equally reducing their buying prices.

Tung oil is China's principal exchange earning export produce, followed by bristles which two articles have eclipsed the prewar export favourites of China, silk and tea. In addition to the prominent place tung oil exports have obtained in trade statistics, Chinese politics have—as had to be expected—utilised this oil primarily for the purpose of securing US\$ in New York. The tung oil market has been manipulated by political interests which eventually caused its loss of popularity among American industrialists (mostly the motor car industry). Within a short time, North and South American production of oil expressed from wood nuts, apart from steadily improving synthetic oils of any description, may be expected to enable the New York market to dispense with the Chinese produce to a large extent.

Tung oil in Hongkong, after the end of war, became the most important export article for the purpose of accumulating US\$ in New York. Smuggling of this oil became the most conspicuous development in "China's unrecorded trade." Many highly placed mandarins and important business interests of China availed themselves of the opportunity, which tung oil exports against US\$ in New York offered, and engaged in organised smuggling. The story of tung oil exports during 1945/1947 will have to be told later.

Other Chinese produce remained at almost unchanged rates but the tendency was weak. Cassia oil quoted \$1,200 and Linseed oil \$275 per picul.

Tung Oil Exports

The 1946 production of tung oil in China amounted to about 45,000 tons, of which about 10,000 tons were used domestically and 25,000 tons shipped abroad. About 70% of total exports were shipped via Shanghai, and 30% through Hongkong.

Recipient countries were: U.S.A. with 65.32%, followed by U.K. 16.9%, European countries 9.47%, USSR 8.28% and others 0.39%. The total value of tung oil exports in 1946 has been estimated at US\$25 million.

Wolfram Trade

In spite of the monopoly control exercised by the National Resources Commission, regular supplies of wolfram ore arrive here and in Macao from where they are shipped abroad. The current market price has been strong of late, about \$300 to 320 were paid per picul. The Chinese Govt's monopoly Commission is authorised to pay an equivalent to only \$100 or less. The enormous difference in the official and black market exchange rates, which by the end of last week amounted to almost 200%, i.e. the black market rate is 200% higher than the official rate, must eventually lead to a total evasion of Chinese miners' sales, to the wolfram ore monopoly.

Wolfram ore is much in demand for export in Bangkok. Prices of 900 to 1,000 baht per 60 kilogrammes were offered but supply was practically non-existent. All Siamese stocks have been sold out some time ago. The stockpile held in Bangkok during the war was sold to Germany; submarines and blockade breakers were then transporting the precious ore to German-held Europe.

The tin and tin ore trade in Bangkok is now active with sales put through recently at about 800 baht per 60 kgs for 72% tin ore, and 22 baht per kilogram for refined tin.

Trading Conditions in Shanghai

Present conditions as far as the import trade of Shanghai is concerned were described in a recent report to the London "Economist":

This year's first quarter has failed to bring any improvement of import prospects in China. For most foreign manufactured consumption goods imports are either officially "suspended" or practically ruled out because the Import Control Board and the Central Bank fail to approve applications for licences to import the goods of this category not yet "suspended." For raw materials, fuels and basic foodstuffs, quotas for February-April shipment have been promulgated amounting to a value of £12,500,000 sterling. But the Central Bank of China for the past five weeks has excused itself as having not sufficient exchange to meet even these quotas; it has either delayed indefinitely the issue of licences under these quotas or issued licences "without exchange." Even for the importation of some capital goods—presumably enjoying priority over all others—recent licences were issued "without exchange". Importers more and more realise that, if long delay is to be avoided, they had better mark their applications for licences "value prepaid," as an indication that they will content themselves with licences "without exchange."

CHINA INDUSTRIAL & TRADE REPORTS

PRODUCTION OF OIL

Of the seven oil wells drilled in China during 1946, three were in the Kansu field and four on the island of Taiwan. During the year, 21,538,100 gallons of oil and 506,900,000 cubic feet of natural gas were produced in Kansu, 249,100,000 cubic feet of gas in Szechwan, and 670,453 gallons of oil and 1,370,100,000 cubic feet of gas in Taiwan. Production of refined products in Kansu was as follows, in gallons: Gasoline, 4,308,737; kerosene, 2,113,485; Diesel oil, 243,863; lubricants, 2,610; and heavy oils, 21,713,729. Also, 14 metric tons of waxes were produced.

The recipients of such licences are officially supposed to have already the exchange they require to finance the imports for which they apply; in practice, the Central Bank in their case simply closes both eyes to the illegitimate ways and means by which importers given such licences have to raise the exchange in the black markets.

This year imports into China meet with greater obstacles and difficulties than at any time since the end of the war. Their value for the first half of this year will show a considerable fall below that of the corresponding period last year. The Chang Chun Government have taken over the main body of their predecessors' foreign trade and foreign exchange restrictions. They may allow a few minor alleviations and adjustments in technique; but there is no prospect of any large-scale relaxation unless China obtains the large American loan for which she is trying so hard. To American exporters China unofficially holds out the hope of import concessions in case the loan should materialise. Chinese big business meanwhile sits back and watches developments. There are practically no private investors in capital goods; Chinese capitalists generally consider the present uncertainties far too great to warrant fresh capital investment. The feeling that the post-war boom is over, that business conditions have deteriorated, and that still less prosperous days lie immediately ahead, is taking hold of the entire business community, both foreign and Chinese.

PRODUCE PRICES IN SINGAPORE

Recent average prices per picul of Siam produce in Singapore in Straits dollars: white rice, first grade, \$85, second grade \$80, third grade \$70. White sugar first quality 106, second quality 102, third quality 98. Brown sugar 52. White pepper 118-128. Black pepper 95. Copra 20-22. Fresh tamarind 16. Soya beans 8. Small green peas 22, large size 29. Groundnuts, roasted 60, husked 65.

The production of petroleum in the Province of Kansu averaged daily about 1,500 gallons during 1946, all of which was consumed in the nearby areas. This is estimated to be about 70 percent of total Chinese oil production. Several foreign economic missions have been advising the Chinese Govt as regards the future development of her oil resources but no satisfactory agreement with either a British or an American oil company could be concluded.

The Govt-owned China Petroleum Corp. is rehabilitating the oil refinery of Taiwan, built by the Japanese during the war; the plans of the Corp. provide for an eventual crude-oil run of 6,000 barrels daily. The National Resources Commission purchased 300,000 tons of crude oil for delivery to the Taiwan refinery during 1947.

FOREIGN BUSINESS IN OIL

Although the foreign commercial oil companies in China have made excellent progress in the rehabilitation of the distribution facilities, they have been handicapped by the lack of transportation to inland ports which are accessible only to vessels flying the Chinese flag. Military cargo has priority on these vessels, and the competition for the remaining limited space forces considerable increase in freight charges (apart from the inflationary upward movement of allround prices). The rate on 212 gallons from Shanghai to Hankow rose recently to US\$26.87.

Gasoline consumption increased heavily in the areas accessible to the principal distribution points. Commercial imports into Shanghai during 1946 amounted to 1.6 million barrels, compared with 1.4 barrels by the Chinese Govt. Imports of kerosene, formerly Chinese chief import of petroleum products, are at present limited to seven-twelfth of average imports during the 1932-36 period. Fuel oil consumption is increasing because many of the public utilities have converted from coal to oil. Shanghai has also become an important bunkering station, with a demand for bunker fuel oil estimated at 12,000 tons monthly.

China's gasoline, kerosene, fuel oil etc. import figures (quantities and values) were published in our issue of May 7, pp. 219/20.

INDUSTRIAL CENTRALISATION

The National Resources Commission of the Republic of China (Chairman Mr. Chien Chang-chao) is in charge of national industrial promotion besides acting as a partial monopoly for the working of mines, trading in ores, operating factories and utilities. Many plans have been announced by the Commission which all indicate that it is the intention of the Chinese Govt to centralise control over industries in the hands of the N.R.C. The most recent

industrial production plan of the N.R.C. provides that "by 1949 the country's economic necessities could be supplied in such volume as to be self-supporting, and that some products could be exported in quantities sufficient to provide China with US\$ 20 million in foreign exchange in 1947."

Later, however, some retraction from this plan is made when the "present unsatisfactory economic condition and the continuing civil war" are blamed for the possible failure of the plan. The projected production plan is based on anticipated reparation deliveries from Japan especially with respect to sulfuric and hydrochloric acid and caustic soda.

A considerable part of China's industrial production is represented by the output of N.R.C. which at present directly controls over 95 productive units with more than 250,000 employees. In petroleum production and certain minerals the Commission represents actually total Chinese production.

The "Economic Emergency Measures", announced by the President of China, on Feb. 16, 1947, provide for the eventual disposal of "all industries owned by the Government except those of national defence and public utilities." However, the policy of Nanking is to acquire more control than before and in spite of the professed intention to give free enterprise more scope in the ownership and management of industries, the concentration of productive enterprises under Govt-corporations will increase.

CHINA'S LUMBER IMPORTS IN 1947

Lumber to the value of US\$1,830,000 has been permitted entry into China during the 3-month period, February, March, and April. This allotment has been set by the board of Temporary Regulation of Imports under schedule II of the Revised Temporary Foreign Trade Regulations. Shanghai will receive 86 percent of the total allotment, and the remaining 14 percent will go to outports.

The quota of US\$1,830,000 permits the importation of approximately 14 MM feet of softwood. But if a minimum of 1 MM feet of hardwoods are imported the softwoods will amount to roughly 12 MM feet. Softwood requirements for Shanghai alone are estimated at 18 MM feet for the quarter, and the shortage is to be supplied from some 21 MM feet of stocks on hand.

The Board of Temporary Regulation of Imports has compiled a list of qualified lumber importers. In addition to the private importers, it is anticipated that UNRRA, the Ministry of Communications, and the Central Trust of China will import lumber. The latter two agencies may be included in the established quota, although the Import Board had not made a commitment on this point.

Lumber exporters who have an interest in shipping to China must ascertain before shipping that they are dealing with a firm which has been qualified by the Import Board and that the firm is acting within its individual quota. Cargo should not be loaded on board vessel until notification of Chinese import license number has been received by the shipper.

The next timber allocation will be for the month of May, June, and July. The Import Board officials state that the quota for the period will be determined by the available foreign exchange and the volume of stocks on hand. Merchant sources do not anticipate an increase in the timber quota for succeeding quarters over the initial quarter. Thus, timber imports in 1947 are likely to be smaller than the 87 MM feet imported in 1946, which was only 10 percent of normal.

BRISTLE EXPORTS

Bristle exports to the United States from Tientsin, during March 1947 totaled 221,506 pounds, valued at \$981,645 U.S. currency, as compared with 17,270 pounds valued at \$72,745 in February, 151,470 pounds valued at \$661,745 in January, and 382,140 pounds valued at \$1,469,010 in December 1946.

The monthly average value, packed-ready-for-shipment Tientsin, was \$4.43 per pound in March, as compared with \$4.37 in January and \$3.84 in December.

The bristle market in Tientsin in March was active. Some Chinese dealers are believed to be oversold, which may cause delay of certain April deliveries; others are unwilling to sell for delivery prior to May 10. In addition to substantial sales in the New York market, a fair volume of business was transacted with London and Australia, the quantities and prices of which are not available.

The sizes and assortments shipped to the United States market during March were as follows, in United States currency per pound, c. i. f. (or c. and f.) New York:

Size or assortment	March 1947
Number of cases	Price range
2 $\frac{1}{2}$ "	229 \$1.13 to \$1.165
2 $\frac{1}{2}$ "	163 2.21 to 2.278
2 $\frac{1}{2}$ to 5 $\frac{1}{2}$ "	15 — 2.45
2 to 3 $\frac{1}{2}$ "	21 — 4.15
3 $\frac{1}{2}$ to 6 $\frac{1}{2}$ "	21 — 6.50
4 to 4 $\frac{1}{2}$ "	12 — 9.85
26-case assortment	312 3.10 to 3.75
43-case	86 5.70 to 5.75
55-long (2 $\frac{1}{2}$ to 5")	275 7.25 to 8.00
55-short (2 $\frac{1}{2}$ to 6")	880 4.10 to 5.30

CHINA'S INTERMINABLE CIVIL WAR

MORAL AND POLITICAL DISINTEGRATION

The change of the Prime Minister (President of the Executive Yuan) of China on April 16, heralded a stepped-up offensive by the forces under control of the Government against the Communist armies in North China, Manchuria and the guerrillas all over the vast country. Fighting is indecisive and all foreign observers of the Chinese scene predict continued civil war without either side being able to score real victories. The war cannot be stopped now; for a good time to come there will continue to exist two Chinas.

The deterioration of all aspects of life in China is an inescapable consequence of the civil war and is certain to affect with growing intensity Hongkong and Far Eastern countries with strong overseas Chinese minorities.

The London "Economist" has recently reviewed the position in China as emerged after the assumption of power by the new Premier, General Chang Chun.

On April 16th, President Chiang Kai-shek's old friend, General Chang Chun, received appointment as Prime Minister of the Chinese Government. Two months and a half have passed since the United States Ambassador to China gave notice that his Government had decided to end its connection with the Committee of Three, of which General Marshall had been chairman, and which had been set up for the purpose of bringing about a settlement of China's internal conflict. That notice was immediately followed by two closely related events: the replacement of Dr T. V. Soong as Prime Minister by Chiang Kai-shek himself and the launching of regular warfare against the Communists, who were declared to be in a state of "open rebellion" against the Government.

Fight to the Finish

The military leaders in Nanking had for some time been urging that the deadlock in the negotiations between the Kuomintang and the Communists could only be resolved by force that, American mediation was merely tying the Government's hands, and that the American loan dangled before the Government's eyes as a reward for a peaceful settlement would be obtained at too high a price if it involved a renunciation of the legal Government's right to suppress armed revolt. They felt, moreover that their political position had been greatly strengthened by the promulgation of a fairly liberal Constitution to replace tutelage by the Kuomintang party, and by the deals recently done with the Young

China and Social Democrat minority parties; economically, they already held large stocks of military supplies turned over to China from American wartime accumulations, even without the projected conditional credits, and they could reasonably expect that, if they were successful in forcible unification of most of the country—or alternatively if they were in danger of defeat—the credits would in the end be forthcoming. These views appear to have been shared by the Generalissimo himself, who was anxious to be rid both of the restraint of American mediation and of the humiliating reputation of being dependent on American support for his survival.

Kuomintang vs. Communists

With the bothersome American peace-makers out of the way, the Nanking generals have their chance of achieving decisive military victory over the Communist armies. Their difficulty is to obtain any result which can be called decisive in warfare with a supple and elusive guerrilla power in a country of scanty communications, where there is widespread popular sympathy for the rebels. They hope, nevertheless, to force the Communists out of certain areas where they seriously embarrass the Government's authority in China as a whole, and to confine them in other areas, where they will be relatively harmless. The war is in fact going on in two separate regions—in Manchuria and in North China especially in the coastal province of Shantung. The two regions are separated by a zone of Government control on the line Tientsin-Peiping-Kalgan-Tatung, though there is some Communist intercommunication across this zone. The regions also differ in their relation to the geographical framework of the Government's authority. The latter is centred on the Lower Yangtze and is also established in the Peking-Tientsin area, in other important cities of North China, and in South Manchuria. The Communist-controlled area of North Manchuria is at the northern extremity of China, far from Nanking, and does not interrupt any communications, as the Government holds nothing beyond it. The Communist forces in Shantung, on the other hand, intercept the vitally important railway which links Peking and Tientsin with Nanking and also the lines running into the interior from the ports of Tsingtao and Haichow; in addition, they are dangerously near to the capital and to the economic metropolis of Shanghai. For the Government, therefore, success in Shantung is much more important than success in Manchuria. The

Communists appear to take the same view of the supreme strategic importance of Shantung, for they have not only infiltrated reinforcements by sea from Manchuria into Shantung in fishing boats and other small craft, but they seem to have depleted their forces in Shensi and Shansi to concentrate them in Shantung; a consequence of this strategy has been the loss of their famous "capital," Yenan, which was abandoned to Government troops early in March without serious resistance.

Civil War Strategy

Fighting has been going on in Manchuria as well as in North China, but it has been of an inconclusive character, and there is some ground for believing that it has been complicated by political considerations which are not purely domestic. Nanking claims to have repelled a Communist offensive against Changchun, but although the best-equipped Government division are supposed to be engaged on this front, there does not seem to have been much energy in pressing the much advertised advance on Harbin. There have been rumours of secret Nanking-Soviet talks about North Manchuria. This region, which forms a huge salient projecting northward into Siberia and through which runs the railway from China to Vladivostok, is the part of China in which Russia has long been, and is to-day, most interested, the region where the Soviet Government is least willing to see either full control by a non-Communist Chinese central government or the penetration of American capital associated with it. The Soviet Union, as a result of the secret treaty concluded at Yalta with Britain and the United States and subsequently imposed on China, has control (in nominal partnership with China) of the principal Manchuria railways, but no rights of military occupation, without which the railways are always liable to seizure. The next best thing to military occupation being a "friendly" government, the Russians after the Japanese surrender gave a helping hand to the Communists in Manchuria. This was nearly effective in closing the whole territory to the Nanking forces, but when the latter, with the aid of American transport, forced their way in, they were allowed to advance north as far as Changchun without Russian intervention. It has been a matter for doubt, however, whether Russian restraint would stand the further advance of Chinese Government troops to Harbin, and it may be that, even if the Chinese Communists are defeated in North China—which is not yet by any means a foregone conclusion—a refuge for them will still be maintained under Soviet protection in North Manchuria. Without abandoning ultimate claims to full sovereignty up to its northern frontiers, the Nanking Government would probably be well

content for the time being if it could but remove Communist armed power from near the heart to the periphery of China.

Corruption in China

President Chiang and some of his close associates—though not all of them—are aware that the success of their policy is not only a matter of military operations. Apart from factors of international diplomacy and public opinion abroad, the Government has to fight for political support within China and this means something more than a paper Constitution or grandiose paper plans for future economic construction. There have recently been some signs of a real effort to check official corruption and to put an end to the fantastic regime of carpet-baggers which overwhelmed the liberated provinces after the collapse of Japan. There has been some cleansing of the Augean stables, even if only with muddy Yangtze water. Poor Dr Tsiang, former Director-General of the Chinese National Relief and Rehabilitation Administration (CNRRA), has been made a scapegoat for the sins of more exalted persons, and is leaving for the United States to become a Professor of modern Chinese history, from which exile he will no doubt in time be restored to favour, if the history he teaches is not too indiscreet. An Economic Supervisory Committee, acting under direct instructions from President Chiang, has made some spectacular moves against the illegal currency speculation which recently brought about a panic in business circles in Shanghai. A committee of the People's Political Council investigating recent accidents on Chinese air lines has reported that the State-controlled civil aviation companies are "improperly equipped and badly managed and riddled with corruption and delinquency."

Maladministration and Racketeering

This reforming zeal which now manifests itself—still, to be sure, within strict limits—may have been due in part to the desire to make a better showing in anticipation of American credits, in part to the desperate need of the Government to obtain some sort of financial stability after China's prolonged orgy of inflation, but probably in part also to a purpose of strengthening the ties of the Kuomintang with the sounder part of the commercial and industrial bourgeoisie. The Kuomintang was in its origin the party of the rising capitalist class which sought both protection against foreign "imperialist" capital and an end to disorderly, inefficient and restrictive "feudal" rule in China. But the Japanese invasion, overrunning all the most important urban centres of China, eclipsed the new bourgeoisie, and the

Kuomintang in exile in the interior under war conditions fell under the domination of landowners and civil and military officials who raked profit from monopoly trading. Since the end of the war, however, the bourgeois element has revived in Shanghai and elsewhere, and has shown a lively discontent with official maladministration and racketeering, which have been compared unfavourably with the conditions for private business in the Communist areas.

Support of Bourgeoisie

Anti-Communism without the support of the capitalists is obviously a poor proposition, even in China, and there have been signs that the Kuomintang is seeking once more to base its policy on the bourgeoisie rather than on the landed gentry. Such an orientation would make it easier to carry out the minimum of agrarian reform necessary to enable the Kuomintang to appease peasant antagonism. The Government recently decreed that in areas recovered from the Communists owners may reclaim confiscated lands, but only if they can produce the proper title deeds, and that rents may not exceed one third of the crop—whereas rents of more than half are not uncommon in China. If the provision about title-deeds is strictly enforced, many owners may fail to regain their properties, though the principle of restitution will not be affected.

Firm Foreign Policy

Perhaps the Government's strongest card, however, is a firm foreign policy. The Kuomintang flies the banner of nationalism and it comes nearest to rallying the Chinese nation under its leadership when it stands up for the dignity of China in the international field. The withdrawal of American marines and mediators has delivered the Government from a too obvious foreign patronage and it has certainly had the support of all politically conscious Chinese except the most fanatical Communists in its uncompromising protest against discussion of Chinese internal affairs by the Council of Foreign Ministers.

A strong line has also been taken about measures of the Philippine Government discriminating against the Chinese community and, in Indonesia, where a number of Chinese residents have been victims of disorder, China has demanded special safety zones to be policed by an armed Chinese militia; the Dutch authorities are reported to have conceded this in principle. Such energy in protection of the "Overseas Chinese" is evidence that civil war has not paralysed China as an international factor where important national interests are concerned.

RESPONSIBILITY FOR BRITAIN'S OVERSEAS COMMERCIAL POLICY

The following statement regarding the responsibility of the various Departments of His Majesty's Government in the United Kingdom in respect of foreign trade and their methods of operation has been prepared by the Board of Trade, London.

The general relations of the United Kingdom with foreign countries, in which economic questions play an important part, are a special responsibility of the Foreign Office; the trading interest of the United Kingdom is a special responsibility of the Board of Trade; the financial position of the United Kingdom in relation to foreign countries is a special responsibility of the Treasury. Ultimate responsibility for any matter of major policy is that of His Majesty's Ministers collectively. This is particularly relevant in questions which involve two or more Departments of Government.

The formation of commercial policy towards foreign countries and the conduct of trade negotiations with other Governments are thus primarily the responsibility of the Board of Trade (Commercial Relations and Treaties Department). In addition to sections dealing with general matters, this Department has a number of officers who devote their time to particular countries or groups of countries. They keep in close touch with the relevant geographical and economic departments of the Foreign Office in order to ensure that commercial policy is in line with general foreign policy and also with the Treasury, who have an Overseas Finance Department, which, like the Commercial Relations and Treaties Department, contains geographical sections, with respect to financial questions.

There are also a number of other Departments (for instance, Food, Civil Aviation, and Fuel and Power) which are associated in their respective spheres with the three Departments principally concerned in the formation of economic policy towards foreign countries.

Thus, there exists for each country or group of countries a team of officers in the Foreign Office, Board of Trade and Treasury (and also in other Departments as necessary) who are expert in the general commercial aspects respectively of our relations with foreign countries. The members of this team work closely together and are in constant touch with each other by correspondence, telephone and meetings. These three Departments thus all play their part in framing policy and make their contribution with respect to their particular sphere of operation.

Export Promotion Dept.

Mention must also be made of the work of the Export Promotion Department of the Board of Trade. This has taken the place of the De-

partment of Overseas Trade, which was jointly responsible to the Foreign Office and the Board of Trade. As its name indicates, the emphasis of the work of this Department is primarily on the urgent need to expand United Kingdom exports. Consequently, the Export Promotion Department is mainly in contact with the individual traders at home or overseas who are engaged in the actual work of export, rather than with other Government Departments. But in addition to these activities it is also responsible for providing the policy-making Departments with the economic, commercial and in many cases financial data on which policy decisions can be based.

Economic work in foreign countries is conducted through the Commercial Secretariats of United Kingdom Missions abroad, who are responsible to the Foreign Office and are members of the Foreign Service. These officers are the chief sources of intelligence on economic developments in

foreign countries and they serve for this purpose the Export Promotion Department of the Board of Trade. At the same time these Commercial Secretariats are responsible for handling trade questions as defined in the second paragraph of this article, with the Governments to which they are accredited, under instructions from the Commercial Relations and Treaties Department of the Board of Trade.

The allocation of responsibility for commercial relations with Canada, Australia, New Zealand, South Africa and Eire follows a similar pattern with the difference that the Dominions Office and not the Foreign Office is generally responsible for relations with those countries. The Trade Commissioners stationed in the British Commonwealth, unlike the commercial secretariats in foreign countries, are primarily responsible to the Board of Trade. But in the countries mentioned the Senior Trade Commissioner is in each case also the Economic Adviser to the United Kingdom High Commissioner (or Representative) and thus keeps touch through the latter with the Dominions Office.

TRANSFER OF CHINESE GOVERNMENT OWNED INDUSTRIES TO PRIVATE ENTERPRISE

Suggestions for the Public Sale of the Shares of the China Textile Corporation

The problem of continued ownership and control of China's heavy and the leading light industries by the Government has attracted much interest among foreign observers of the Chinese scene. The principle of State-ownership is being contested by the advocates of Free Enterprise.

In the following study, Dr. H. D. Fong reviews the present position; his study appeared in the "Century Review" and was translated by the Aurora University's Bureau of Documents.

Dr. Fong is assistant director of the China Institute of Economics in Shanghai; the original title of his study was: *The Transfer of the Govt-managed Enterprises to Private Interests should start with the China Textile Corporation.*

In the mid-February run on gold and US notes when the prices of commodities all soared up, "Economic Emergency Measures" were promulgated by the Government. Though the measures were wide in scope and numerous, they were mostly temporary. The most noteworthy among them was the one aiming at balancing the budget, since in the present situation of continued civil war the soaring of commodity prices can only be checked by increasing financial income and by decreasing the issue of currency.

Two measures should be put into realization immediately by the Government:

(1) it should curtail the expenditure of the budget and increase the income from taxes

(2) it should increase income of a temporary nature by selling surplus materials and enemy and puppet properties on the one hand, and on the other hand, by selling all Government-managed productive enterprises except those that fall within the sphere of heavy industry or those that for special and obvious reasons should be managed by the Government. The sale should be made either by issuing shares, or by simply selling to private enterprises.

Govt-Managed Industries

There has been much argument regarding Government and private management. Since the establishment of the Kuomintang Government, the sphere of the Government-managed enterprises has been widened upon the basis of "realizing the Principle of Livelihood and developing the National capital." This was especially true during the period of the war of resistance, when the hostilities everywhere brought devastation and private enterprises could find no way to maintain their

business. Consequently, all the important industries in this country were managed by the National Resources Commission, while the import and export trade all fell into the hands of the Committee of Foreign Trade. The communication enterprises were gradually nationalized and the nation's finance was completely controlled by the four Government banks and two government financial corporations.

The whole economic domain was controlled by the Government, and it seemed that it was going to be unable to cope with such a situation. Scholars and experts were all of the opinion that an economic reconstruction should be carried out as soon as possible, and definite ways and means should be devised to cope with the nation's position. The policy of control should therefore be based on a reasonable division of the nation's productive resources into Government-managed and private managed enterprises.

Hence in December 1944, the National Defence Council passed the principles for the first stage of economic reconstruction, providing that:

"The kinds of enterprises to be managed solely by the Government should not be too numerous. They should include:

- (1) postal and telegraphic administration,
- (2) arsenals,
- (3) The Central Mint,
- (4) The main railway lines,
- (5) The large hydro-electric plants.

Other enterprises that have not been specified as to be managed solely by the Government can be managed by private interests. The Government reserves the right to manage, either alone or jointly with Chinese or foreign private capital, all enterprises which are beyond the scope of private enterprise or which are of special importance to the Government, such as oilfields, iron and steel works, navigation and transportation."

The sphere of private enterprises was thus considerably widened.

State Controls & Ownership

However, in May, 1945, at the Sixth Plenary Session of the Kuomintang, the outlines governing industrial reconstruction were passed, and the scope of the Government-managed industries was again laid down as follows:

- (a) Those directly connected with the secrets of national defence, such as arsenals.
- (b) Those which are by nature monopolies, such as railways, post and telegraph services, public utilities and the supply of power.

(c) Resources necessary for national defence and limited in quantity such as metallurgy, coke, petroleum, iron, aluminum, copper, zinc, lead, magnesium, manganese, sulfur.

(d) Those that are in cartel relation with the international market such as the dye industry.

(e) Minerals that enter into international trading such as tin, antimony and tungsten ore.

With the above exceptions, production can be managed privately. The number and kinds of enterprises reserved for Government management as laid down at the Kuomintang Session are more numerous than those passed by the National Defence Council. On the other hand, the kinds of enterprise that can or rather that may be managed privately are fewer than those passed by the same Council. Yet, in principle, both of them stipulated that heavy industries should be managed by the Government and light industries left to private enterprise.

Dr Soong's Monopoly Plans

Later, Dr T. V. Soong came to power, and tried to create a Government monopoly of economic enterprises. Hence, after the victory, all the enemy and puppet production enterprises, irrespective of their nature or size were taken over and managed by the Government, with the exception of navigation, taken over by the Govt-owned Chinese Merchant Steam Navigation Co., the mines by the National Resources Commission, and all the railways by the Ministry of Communications.

A further step was the establishment of the China Textile Corporation, the China Silk Corporation, the China Tobacco Factory, and the Sugar Co. of Fomosa. The situation has changed completely owing to the scarcity of capital, the fluctuations in commodity prices and the consequent difficulty in making estimates of enterprises such as textile industries, silk, cigarettes, sugar and other light industries that formerly all belonged to private owners.

Aims of "Economic Emergency" Measures

It seems that the economic emergency measures of last February aim at the correction of the Government's past mistake, and at restoring the demarcation of the limits of Government and private management.

From the standpoint of business development, the transfer of light industries to private management clears the Government from the charge of competing with its people in money making.

It should begin from the China Textile Corporation. There are several reasons why the China Textile Corporation should be the first to be transferred from Government to private management.—

The China Textile Corporation

(1.) Cotton textile enterprises belong to light industry. Except in the Soviet Union they are under private enterprise in all countries of the world. This was formerly also in this country. Upon the establishment of the China Textile Corporation, 1,300,000 spindles were taken over from the enemy and puppets, and of this total 1,500,000 spindles are now working. The latter figure bears a ratio of 1:1 as compared with the 1,580,000 spindles at present working in private mills. Though at the time of its establishment the Corporation promised to assist the private cotton mills, during the past year, both in business and in policy, facts have proved that the Corporation has been competing with the private firms. Thus, with a view to promoting private enterprises, the Corporation should be transferred to individual management.

(2.) The China Textile Corporation is one of the largest of all the Government-managed light industries. The sale of its assets to the people would bring in a large amount of capital to the Treasury and help to balance the public expenditure. If one spindle (or the corresponding unit of dyeing and weaving equipment, buildings or land) were sold at US\$100, this capital would amount to US\$180 million. With such a temporary income the issue of currency could be greatly diminished. Furthermore, the development of private enterprise would mean increased income to the Government.

(3) If the Corporation was sold in the form of shares, it could absorb a large amount of idle capital and improve the market in stocks and shares. This can be seen from the chaos in this market upon the promulgation of the emergency measures after the "gold rush." The emergency measures were promulgated on February 15th, and on the following days, all the Chinese stocks appreciated. In one week, all shares rose to their limit.

This was due to the fact that after the announcement of the emergency measures, the buying and selling of gold and foreign currency were forbidden while all daily necessities were controlled.

At present, there are 26 kinds of shares on the market, and the local nominal value is only 3,300 million dollars. Even if the market value is now 50 times the nominal, it can only absorb less than 200,000 million of idle capital. However, according to the estimate made by Mr Chen Chao-teh of the Central Bank of

China, the present circulating currency is about 10,000,000 million. In Shanghai alone, there are 650,000 million of idle capital and there are 200-300,000 millions of idle capital in other places. The recent "gold rush" was due to this accumulation. It is clear that the present amount of shares cannot absorb a huge idle capital, which simply aids speculation. If half of the Corporation's assets could be sold out, this question of idle capital could be settled.

4. A point that deserves special attention is that, despite apparently huge returns, the past year of management was a real failure. The Corporation put all the workable mills back to work and the quantity of production was increased to a certain extent: the profit amounted to 1,000,000 million. But of this amount only 200,000 million went to the Government treasury to meet the financial deficit. It failed however, to devote any effort to elements fundamental to the textile business as a whole.

Take the case of cotton for instance. Before the war, our own cotton sufficed as necessary raw material. During the period of the war of resistance, the chief cotton fields fell into the hands of the Japanese. Under the enemy's policy of compulsory buying at a low price, all the farmers gave up growing cotton, with a resulting decrease in cotton production. In the first year after victory, the nation's cotton production was only 7,430,000 shih tan (50 Kgs equal one tan) as compared with 17,400,000 shih tan in 1936. Hence 80-90% of the raw cotton used by the Corporation came from abroad. Of course, we cannot criticise the temporary use of foreign cotton, but the work of increasing cotton production is very urgent and necessary. Apart from contributing to the cotton trade rehabilitation fund, the Corporation failed to enforce the purchase of home-grown cotton, which in some places is much cheaper than the American.

With regard to machinery, the present prosperity is the golden opportunity of increasing production. We know that many private cotton mills are ordering new machines for further expansion, but as far as appearances go, the Corporation is doing nothing. Since the war, there have been plenty of improvements, yet the Corporation just sticks to the old-fashioned equipment which once belonged to the enemy and puppets. It cares only for the present but never the future. This is to kill the goose that lays the golden egg.

On the technical side, at present the nation has 3,100,000 working spindles in the various Japanese and British mills. Technical staffs of

various grades and skilful workmen are not enough. In order to carry out the five year plan for developing self-sufficiency in the cotton textile industry 8,000,000 spindles are necessary, assuming the consumption to be 16 meters per head. In other words, the working staff should be doubled at least. As it is not easy to obtain such a staff, ways and means should be devised to cope with the future situation.

The Government is not far-sighted enough to consider the future of the textile industry. It is wasting a golden opportunity. For this, the Corporation should be held responsible. Last year, it only contributed \$200 billion to the nation's treasury, and we must ask how the other \$800 billion were used. Since the victory, the situation has been such that the demand for cotton has always been greater than the supply, while there has not been any foreign competition. Now, the rehabilitation of the Japanese cotton industry is in full swing, under the assistance of General MacArthur and within this year, huge quantities of cotton goods will be exported. In face of the coming life and death struggle, the readjustment of our cotton textile industry should no longer be neglected.

Transfer to the People

The transfer of the Corporation to the people for management is within the Government's power to enforce. We should devise how the transfer is to be made. The ownership of the 1,800,000 spindles will have great influence on the present and future of the people.

There are 61 factories in all. Besides the majority, which are cotton mills, there are also woollen and jute mills, printing and dyeing works and machine works. In some cases one factory fulfils a double function. Such an organization is unsuited to scientific management.

As this country lacks industrial organization and managing experience, (and the administrative efficiency of the Government is low) the optimum size of our industrial organization must be very low. Hence, it is necessary to reduce the scope of the Corporation and to concentrate the management so that it may be in conformity with the economic requirements. Therefore, we suggest that the Corporation should first be reorganized and divided into several units. After their types and nature as well as their localities have been ascertained, these units should then be classified into different categories before being sold to the people.

The methods and objects of transfer can be considered together. The method, according to the Govern-

ment's provisions is to be either by simply selling the factories or by issuing shares. Such huge assets naturally cannot and should not be sold to any individuals, so that eventually shares will be issued, intended to be absorbed by the middle-classes. Furthermore, in this way, the idle capital of the public can find its final goal.

The point we should consider is how to issue such shares and in what names, so as to prevent the invasion of bureaucratic capital. At present, if shares are issued for the Corporation, the general public knows very little about its internal organization. Hence, people may under-estimate its profits and its future development. As a result, they will not buy the shares.

On the other hand, bureaucrats and privileged groups may easily control the majority of shares under assumed names in spite of any limitation of investments. Hence, we are of the opinion that the Government should trust the work of transfer to some organization comprising both members of the Government and the people. It should include members of the senior technical and administrative staff of the Government and experts of the private textile industry, experienced industrialists, and financial representatives of the people.

After close investigation, the assets of the Corporation should be sub-divided into units and sold to the public in the form of shares. There should be limits set on the buying of such shares, so that it can not be monopolized by any individuals. It may also be provided that at the meetings of shareholders, the right of representation does not depend upon the amount of shares owned.

Chinese People's Demands

We demand that the textile industry should be transferred to private owners, and questions of management and administration should be left to the owners themselves. Otherwise, the cotton industry can never be separated from political influence. We suggest that the Government should still possess the right of supervision, and attend the meeting of the shareholders for the following reasons:—

1. A united front to cope with future competition in the international cotton market, is impossible without Government effort.
2. In the interest of production and distribution, monopolies can be averted by Government supervision.